

Message Text

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ACTION ARA-10

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FM AMEMBASSY QUITO

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C O N F I D E N T I A L QUITO 1707

E.O. 11652: GDS

TAGS: EAID PFOR EC

SUBJECT: FINANCE MINISTER REQUESTS REVIEW OF ECUADOR'S NON-ACCESS
TO SOFT LOANS

1. SUMMARY: DURING INITIAL CALL BY AMBASSADOR AND DCM ON NEW FINANCE MINISTER CESAR ROBALINO, THE MINISTER EXPRESSED HIS DEEP CONCERN AT HARDENING AVERAGE TERMS ECUADOR'S DEVELOPMENT BORROWINGS AS A RESULT ITS LACK OF REAL ACCESS TO IDB SOFT LOAN WINDOW. HE ASKED THAT AMBASSADOR USE GOOD OFFICES TO HAVE U.S. POLICY THIS ISSUE REVIEWED. AMBASSADOR AGREED TO RECOMMEND SUCH A REVIEW AND HEREWITH DOES SO. INTERNALLY, THE BASIS FOR SUCH A REVIEW MAY BE ASST SECY ROGERS' STATEMENT TO THEN FINANCE MINISTER MONCAYO THAT WE DO NOT WANT ECUADOR EXCLUDED FROM THE FSO ON A PERMANENT BASIS. WE RECOGNIZE PROBLEM IS MAINLY POLITICAL ON BOTH SIDES, BUT BELIEVE THAT THERE CAN BE ADDUCED CERTAIN ECONOMIC ARGUMENTS IN FAVOR OF ECUADOR'S ACCESS TO SOFT IDB LOANS. END SUMMARY.

2. ON FEBRUARY 19 AMBASSADOR AND DCM MADE INITIAL CALL ON THE NEW FINANCE MINISTER CESAR ROBALINO. ROBALINO
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OPENED THE CONVERSATION BY EXPRESSING HIS SERIOUS CONCERN

OVER THE HARDENING OF AVERAGE TERMS ON DEVELOPMENT LENDING AVAILABLE TO ECUADOR. HE MADE IT CLEAR THAT HE FELT THE USG WAS BEHIND THIS HARDENING ESPECIALLY AS A RESULT OF ITS POLICY OF EXCLUDING ECUADOR FROM ACCESS TO U.S. PROVIDED FUNDS AT THE IDB SOFT LOAN WINDOW.

3. THE AMBASSADOR RESPONDED BY STATING THAT THE USG BELIVED ITS SCARCE AID RESOURCES SHOULD BE USED MAINLY TO ASSIST THE POOREST DEVELOPING COUNTRIES AND THAT BECAUSE OF THE STRONG PUBLIC REACTION TO HIGH OIL PRICES IT WAS DIFFICULT TO USE OUR DECLINING DEVELOPMENT FUNDS FOR ASSISTANCE TO OPEC COUNTRIES.

4. ROBALINO SAID THAT ECUADOR WAS NOT IRAN, THAT IT IS STILL A POOR COUNTRY AND HAS NEED FOR LONG-TERM BORROWING UNDER THE BEST POSSIBLE CONDITIONS. HE ASKED THAT THE AMBASSADOR MAKE AN EFFORT TO HAVE U.S. POLICIES AND ATTITUDES TOWARD ECUADOR IN THE INTERNATIONAL FINANCIAL INSTITUTIONS CHANGED. THE AMBASSADOR SAID THAT USG POLICY TOWARD SOFT LOANS TO ECUADOR FROM THE IDB WAS CERTAINLY SUBJECT TO REVIEW AND HE AGREED TO MAKE A RECOMMENDATION FOR SUCH A REVIEW WITH THE HOPE OF ACHIEVING MORE FAVORABLE TERMS FOR ECUADOR.

5. THE EMBASSY RECOGNIZES THE ISSUE AS A DIFFICULT ONE FOR THE DEPARTMENT TO ATTEMPT TO RESOLVE. THE ARGUMENT ON BEHALF OF EASING THE TREATMENT OF ECUADOR ARE ON THE WHOLE POLITICAL. EVEN THOSE ECONOMIC ARGUMENTS THAT HAVE SOME MERIT TEND TO REST ON POLITICAL BASES. (YET ECONOMIC MANAGEMENT IS ALWAYS A POLITICAL ACTIVITY SO NOTHING IS NEW IN THIS.)

6. FROM ECUADOR'S POINT OF VIEW, THE COUNTRY REMAINS DESPERATELY POOR. PETROLEUM INCOME PORVIDES AN EXCITING OPPORTUNITY TO HASTEN DEVELOPMENT AND A LARGE SHARE OF THIS INCOME IS INDEED CHANNELLED BY LAW INTO THE NATIONAL DEVELOPMENT FUND, FROM WHICH IT IS RELEASED IN THE FORM OF IMPORTS FOR AGRICULTURAL AND INFRASTRUCTURE PROJECTS AND INDUSTRIAL AND AGRICULTURAL CREDITS. THERE ARE, HOWEVER, OTHER CALLS ON PETROLEUM INCOME. AS DEVELOPMENT PROGRAMS

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CONTINUE, OR EVEN AS ONGOING ACTIVITIES LIKE EDUCATION GROW, THE SUPPORTING BUREACUCRACY GROWS ALSO, CREATING A BUILT-IN DRAIN ON REVENUES. ABSORPTIVE CAPACITY AND INSTITUTIONALIZATION THUS CREATE THEIR OWN COSTS.

7. PETROLEUM REVENUES, MOREOVER, ARE UNCERTAIN. THEY OUGHT NOT TO BE, AND IN A POLITICALLY STABLE ENVIRONMENT THEY WOULD BE STABLE. HOWEVER, ONE OF THE TRUTHS OF ECONOMIC

UNDERDEVELOPMENT IS THAT IT IS MORE OFTEN THAN NOT ASSOCIATED WITH POLITICAL INSTABILITY. THE PROBLEM IS COMPOUNDED WHERE THERE IS A GROWING MIDDLE CLASS, AS IN ECUADOR, WHICH MAKES ITS OWN INCREASED DEMANDS (NOT ALL OF THEM UNREASONABLE) ON THE PETROLEUM-CREATED RESOURCES. THEREFORE ECUADOR FINDS IT POLITICALLY EASIER TO BORROW FROM INTERNATIONAL INSTITUTIONS FOR CERTAIN PROJECTS AND PROGRAMS OF ECONOMIC DEVELOPMENT THAN TO FUND SUCH PROGRAMS DIRECTLY FROM ITS OWN OIL REVENUES. THIS COURSE DOES NOT APPEAR UNWISE -- IN A POLITICO-ECONOMIC SENSE -- SO LONG AS OTHER CONDITIONS PERMIT A REASONABLE DEBT-SERVICE RATIO.

8. IF IT CAN BE ARGUED FROM ECUADOR'S POLITICAL AND ECONOMIC VIEWPOINT THAT DEVELOPMENT BORROWING IS NEEDED AT ALL, IT FOLLOWS -- FROM THIS VIEWPOINT -- THAT THE PRUDENT BORROWER WILL SEEK THE BEST TERMS POSSIBLE. AS A RESULT OF THESE POLITICAL REALITIES, THE SAD TRUTH IS THAT A GREAT MANY OF THE PROGRAMS AND PROJECTS, ESPECIALLY FOR PURPOSES OF SOCIAL DEVELOPMENT, WHERE HELP TO THE NEEDIEST IS THE LONG TERM PURPOSE, WILL NOT GET DONE AT ALL UNLESS THROUGH BORROWING ON SOFT TERMS. WE BELIEVE, AS IS ENSHRINED IN LAW AND CONTINUED PRONOUNCEMENTS BY USG OFFICIALS, THAT IT REMAINS OUR POLICY AND IN OUR INTEREST TO ASSIST AND FURTHER SUCH DEVELOPMENT EFFORT.

9. ONE FURTHER POINT OF PURELY ECONOMIC INTEREST TO THE U.S.: IN THE PAST TWO YEARS AS ECUADOR'S IMPORT CAPACITY HAS RAPIDLY GROWN, THE UNITED STATES NOT ONLY HAS RETAINED, BUT HAS SIGNIFICANTLY EXPANDED ITS SHARE OF THIS MARKET, THUS REVERSING AN OPPOSITE TREND WELL UNDER WAY BEFORE ECUADOR BECAME A NET EXPORTER OF PETROLEUM. THE LEVERS OF IMPORT CONTROL ARE IN THE HANDS OF THE GOVERNMENT. AN ACT OF WILL BY GOE CAN CHANGE THE COUNTRY'S IMPORT PATTERN.

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10. THE EMBASSY HAS REPORTED AT LENGTH THE EFFECT OF OUR BILATERAL RELATIONS WITH ECUADOR OF SUCH RELATIVELY RECENT U.S. ACTIONS AS EXCLUSION FROM GSP AND INELIGIBILITY FOR FSO LOANS. WITH AUTHORIZATION, THE AMBASSADOR LAST YEAR OFFERED AN AID TRANSITION LOAN TO EASE THE AID PHASEOUT. THE CONGRESS LATER CAUSED US TO RENEGE. ECUADOR REQUESTED AND WE OFFERED OFFICIALLY AN LST IN CONNECTION WITH THE RECENTLY-RE-ESTABLISHED MILITARY ASSISTANCE PROGRAM (ONE OF THE FEW LEVERS OF INFLUENCE WE HAVE LEFT), AND WE WERE SUDDENLY TOLD WE MUST DROP THE OFFER -- BECAUSE OF FISHING PROBLEMS. WE HAVE GONE A LONG WAY THIS YEAR IN AVOIDING CONFRONTATION OVER THE FISHERIES ISSUE, BUT THE DURATION OF THIS ATMOSPHERE DEPENDS ON THE GOE'S GOOD WILL.

11. WHEN THE FSO ISSUE WAS DISCUSSED WITH SECRETARY SIMON,
ASST SECY ROGERS, AND ECUADOR'S THEN FINANCE MINISTER MONCAYO
IN SANTO DOMINGO LAST MAY, MONCAYO WAS TOLD THAT "OUR
POLITICAL PROBLEM IS A SHORT-TERM ONE AND THAT OUR PRINCIPLE
IS THAT WE DO NOT WANT ECUADOR EXCLUDED FROM THE FSO ON A
PERMANENT BASIS." I HOPE THE TIME HAS COME TO REVIEW THIS
IMPERMANENT POLICY AND THAT AT LEAST THIS IRRITANT TO OUR
RELATIONS CAN BE EASED.
BREWSTER

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